

Morningstar DBRS Upgrades Issuer Rating of Unipol Assicurazioni S.p.A. (formerly Unipol Gruppo S.p.A.) to A (high) and Removes It From Under Review With Positive Implications; Trend Reverts to Stable

MORTGAGE INSURANCE

After the merger by incorporation of UnipolSai Assicurazioni S.p.A. (UnipolSai) into Unipol Gruppo S.p.A., DBRS Ratings GmbH (Morningstar DBRS) upgraded the Issuer Rating of Unipol Assicurazioni S.p.A. (Unipol or the Company, formerly known as Unipol Gruppo S.p.A.) to A (high) from BBB; all Trends revert to Stable. Morningstar DBRS also assigned a new Financial Strength Rating (FSR) of A (high) to Unipol Assicurazioni S.p.A. and discontinued the Issuer Rating and the FSR of UnipolSai Assicurazioni S.p.A. as the company no longer exists. These credit rating actions resolve the Under Review with Positive Implications (UR-Pos) status under which Unipol Gruppo S.p.A. was placed on February 23, 2024 (UR-Pos status was confirmed on July 17, 2024).

KEY CREDIT RATING CONSIDERATIONS

The credit ratings take into account the completion of the merger by incorporation of UnipolSai with Unipol. As a result of the merger, Unipol became the main operating insurance company of the group.

Unipol's FSR continues to reflect the Company's strong market position in Italy, supported by sound product diversification and its extensive distribution network. While underwriting profitability deteriorated in 2023 because of the Company's exposure to catastrophe risk, Unipol maintained sound bottom-line profitability metrics. On the other hand, the Company's activities remain focused in Italy, and its risk profile is affected by the still-large, albeit decreasing, exposure to Italian government bonds. Unipol's strong franchise and excellent operational execution have contributed to consistent premiums generation in both the nonlife and life segments in recent years. The Company maintained high levels of regulatory capital and adequate levels of financial leverage.

Unipol's FSR is three notches above Morningstar DBRS' sovereign credit rating of BBB (high) with a Positive trend on the Republic of Italy (Italy) and falls within the four-notch credit rating differential allowed by Morningstar DBRS' "Global Methodology for Rating Insurance Companies and Insurance Organizations". This differential reflects Morningstar DBRS' view that, given healthy profitability, Unipol is likely to pay insurance claims even if the sovereign is under stress. In the event of a weakening sovereign, premium revenues will likely continue to be generated, providing steady cash flow and enabling the Company to meet its claims obligations.

CREDIT RATING DRIVERS

The credit ratings would be upgraded over the longer term if Unipol materially improved its profitability, capital generation, and risk profile, together with an upgrade of the sovereign credit rating of the Republic of Italy.

Conversely, the credit ratings would be downgraded if there were a downgrade of the sovereign credit rating of the Republic of Italy due to the Company's substantial asset exposure and business concentration in the country. The credit ratings would also be downgraded if the Company's underwriting profitability or capitalisation were to materially deteriorate.

CREDIT RATING RATIONALE

Franchise Building Block Assessment: Strong

Effective 31 December 2024, Unipol completed the merger by incorporation of the insurance operating entity UnipolSai with the former holding company Unipol Gruppo S.p.A. As a result of the merger, Unipol Gruppo S.p.A. changed its legal denomination to Unipol Assicurazioni S.p.A. Unipol is one of the leading insurance companies in Italy in both the nonlife and life segments. The Company's operating activity is concentrated in the domestic market where Unipol offers a wide range of insurance products, including mobility, home, personal, and professional protection, as well as savings and investment products. Unipol's leading market position is supported by its diversified multichannel distribution network, which counts on an extensive system of agents across the nation and a consolidated bancassurance partnership with two participating Italian banks, BPER Banca S.p.A. (BPER) and Banca Popolare di Sondrio S.C.p.A. (BP Sondrio).

Earnings Ability Building Block Assessment: Strong/Good

Unipol's earnings ability remains sound, supported by its leading market share in the Italian nonlife insurance market. The Company's direct insurance premiums increased by around 9% year over year in 9M 2024, supported by both nonlife and life segments. After deteriorating in 2023, largely because of the negative impact from large losses associated with adverse atmospheric events, the Company's underwriting profitability improved in 9M 2024 with the combined ratio improving to 93.9% from 99% in 9M 2023. The Company's average return on equity has remained in the low teens over the last three years.

Risk Profile Building Block Assessment: Good/Moderate

Notwithstanding the challenging operating environment, in Morningstar DBRS' view, Unipol maintains an adequate risk profile. Of note, in 2023, underwriting profitability in the nonlife segment deteriorated mostly because of adverse weather events and their related negative impacts in Italy during the year. Positively, the Company has fully and successfully implemented its repricing strategy in the motor business, which did not materially affect Unipol's client retention rates. In the life segment, Unipol has been significantly outperforming the market both in terms of premium growth and lapse risk. Unipol's exposure to Italian sovereign debt remained significant but decreased to approximately 30% of the total investment portfolio at the end of 9M 2024 from 50% at the end of 2019. However, while improving materially, the share of securities rated BBB within the Company's fixed-income portfolio was still high at 58% at the end of 2023 compared with 60% at the end of 2022.

Liquidity Building Block Assessment: Strong/Good

Unipol has a predictable claims profile and adequate holdings of highly liquid assets. While the Company's investment portfolio comprises mainly fixed-income securities that provide a source of readily marketable assets, Unipol's substantial holding of domestic bonds exposes the Company to any potential stressed market conditions. Moreover, exposure to natural catastrophic events adds certain claims' volatility.

Capitalisation Building Block Assessment: Good/Moderate

Morningstar DBRS' view of Unipol's capitalisation continues to reflect the Company's strong capital cushions, solid earnings generation capacity, and adequate leverage. Unipol's solvency capital requirement ratio on a consolidated basis (after the merger) remained robust at 224% at end-9M 2024, which compares favourably against domestic and international peers. However, it is below the 320% reported by UnipolSai at YE2023. Unipol's Solvency II ratio remains affected by the consolidation of the two banking subsidiaries, BPER and BP Sondrio. Excluding these banking subsidiaries, the overall Solvency II ratio for the insurance sector at the group level would be 286% at end-9M 2024. Notably, the leverage ratio will decrease significantly after the merger as the Company will let the senior bonds expire without replacement.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Environmental (E) Factors

The Environmental factor is considered relevant but does not affect the credit ratings or trends assigned to the Issuer. As part of its operations within the property and casualty insurance business, Unipol is exposed to climate and weather risks as well as natural catastrophic events in Italy, including earthquakes, wildfires, flooding, etc. Morningstar DBRS considers that the Issuer has adequate

procedures in place to assess and measure the impact of these risks on its operations and supports broader global actions that aim to minimise them. However, losses related to adverse weather events in Italy increased significantly in 2023, leading to a deterioration of Unipol's underwriting profitability.

Credit rating actions on the Republic of Italy are likely to have an impact on this credit rating. ESG factors that have a significant or relevant effect on the credit analysis of the Republic of Italy are discussed separately at <https://dbrs.morningstar.com/issuers/17689>.

The Social and Governance factors affect Unipol as the ESG factors for the Republic of Italy are passed-through given that the Company's credit ratings or trend would move along with the credit ratings or trend of the Sovereign (see credit rating drivers).

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) at <https://dbrs.morningstar.com/research/437781>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Insurance Companies and Insurance Organizations (10 September 2024), <https://dbrs.morningstar.com/research/439195>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings, <https://dbrs.morningstar.com/research/437781> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for this credit rating include Morningstar, Inc. and company documents, UnipolSai's consolidated annual reports 2023-2018, UnipolSai's Solvency and Financial Condition Report 2023-2018, Unipol Gruppo's H124 consolidated interim financial report, Unipol Gruppo's 9M 2024 consolidated results, Unipol Gruppo 2023 Solvency and Financial Condition Report, Unipol Gruppo integrated consolidated financial statements 2023-2018, Unipol Gruppo's annual reports 2023-2018, and Unipol Gruppo's investor presentations and press releases. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/445860>.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit <https://dbrs.morningstar.com>.

Ratings

Unipol Assicurazioni S.p.a.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
15-Jan-25	Issuer Rating	Name Change	BBB	Stb	EU U
15-Jan-25	Issuer Rating	Upgraded	A (high)	Stb	EU U
15-Jan-25	Financial Strength Rating	New Rating	A (high)	Stb	EU U

UnipolSai Assicurazioni S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
15-Jan-25	Financial Strength Rating	Disc.-W/ drwn	Discontinued	--	EU
15-Jan-25	Issuer Rating	Disc.-W/ drwn	Discontinued	--	EU

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